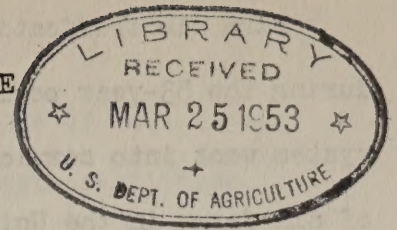


UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

The REA Rural Electrification Program



The Rural Electrification Administration is an agency of the U. S. Department of Agriculture. It was established on May 11, 1935, by Executive Order of the President. The Rural Electrification Act of 1936 gave REA permanent status and authorized a 10-year lending program, which was extended indefinitely in 1944. Congress annually determines the amount of funds REA may lend.

REA was made an agency of the U. S. Department of Agriculture in 1940, and its Administrator, who is appointed by the President for a 10-year term, is responsible to the Secretary of Agriculture. The present Administrator, Claude R. Wickard of Indiana, took office in July 1945.

In the field of rural electrification, REA is empowered to make loans to qualified borrowers, with preference to nonprofit and cooperative organizations and to public bodies. Loans cover the full cost of constructing power lines and other electric facilities to serve persons in rural areas who are without central station electric service. They bear 2 percent interest and are repaid over a maximum period of 35 years.

REA itself operates no rural electric facilities, and its program involves no grants or subsidies. REA loans are repaid from operating revenues of the locally owned, locally managed systems it finances. Part of each consumer's monthly payment for electricity goes to pay off the Government loans. REA serves principally as banker to local systems. Its main functions are to lend money and to give technical advice and counsel where needed in the construction and operation of the borrower's facilities.

Farm electrification had advanced very slowly in the United States during the 53-year period from 1882, when the first central generating system went into service, to 1935 when REA was created. Only 10.9 percent of all farms in the United States were receiving central station electric service by 1935.

Since its establishment, REA has greatly stimulated the extension of service into rural areas. Between 1935 and 1953, about 4,000,000 additional farms had been connected to power lines by all agencies, public and private. More than half of the farms connected to central station lines since 1935 received electric service from REA-financed systems. The remainder were added to lines of other suppliers, many of which were stimulated to greater activity in the rural field by the REA program.

REA estimated that 4,740,849 of the farms recorded in the 1950 Census, or 88.1 percent, were electrified by June 30, 1952. More than 640,000 of the Nation's farms still were unelectrified. In addition, hundreds of thousands of rural nonfarm dwellings, crossroads businesses, schools, churches, and other rural establishments are without electricity.

Many of these unelectrified farms are situated in isolated areas, or in areas of relatively low farm income. Consequently, the most difficult part of the rural electrification extension job remains to be completed. However, the REA program has succeeded in establishing a pattern which eventually can provide virtually every unserved farm in the country with electric service.

By January 1, 1953, REA had approved \$2,669,045,120 in loans to 1,081 borrowers. They include 986 cooperatives, 44 public power districts, 26 other public bodies, and 25 commercial power companies. At that time, REA had on file additional loan applications totaling \$192,000,000 for new system construction and various line improvements. Most of these

applications are in connection with existing systems financed by REA.

Over 1,000 of these REA borrowers now have rural electric facilities in operation. Their facilities include about 1,234,000 miles of line serving over 3,842,000 farms and other rural consumers in about 2,600 counties of 46 States, Alaska, the Virgin Islands, and Puerto Rico.

Over 80 percent of the loans thus far approved by REA have been for electric distribution facilities. REA makes generation and transmission loans only when borrowers are unable to purchase an adequate supply of power or when a saving would result. Approximately 19 percent of the REA loans have been for construction of generating plants and transmission lines. About one percent of the loans has been made to power system operators for financing farmstead installation of wiring, plumbing fixtures, electrical equipment and appliances, and irrigation facilities.

More than three-fourths of all consumers on REA-financed power lines are farms. REA borrowers also serve many thousands of rural non-farm dwellings, schools, churches, stores, community buildings, and similar facilities, as well as thousands of new rural industries and other commercial enterprises.

By January 1, 1953, REA had advanced \$2,157,900 in loans to its borrowers. Under REA loan contracts, advances are made as the borrowers need funds with which to pay for construction under way or completed. The difference between the amount of loans approved and the amount of funds advanced represents loan funds that are obligated to borrowers. Most of it has been further obligated by borrowers to pay for materials or contract services and will be advanced as construction proceeds.

By January 1, 1953, borrowers had returned to the Government approximately \$394,000,000 in principal and interest payments on their REA loans. This included over \$50,000,000 in payments on principal ahead of schedule. Only \$722,000, or about one-fifth of 1 percent of the amount due, was delinquent. Only one REA loan foreclosure has been necessary to date on an operating power system; and that was on a loan made to a small commercial power company.

REA has made more than 95 percent of its loans to cooperatives organized under State laws by rural people seeking electric service. Rural electric cooperatives have proved the most effective instruments for carrying out the REA program primarily because they operate on a nonprofit basis to provide electric service at cost to their members. These groups, which make up about 91 percent of all REA borrowers, are local independent private business enterprises subject to whatever taxes are levied against them.

Lines constructed by REA borrowers are designed to serve entire areas, including less densely settled sections as well as those of concentrated population. The "area coverage" policy has become increasingly important as the rural electrification job has progressed. The test is no longer whether an individual line or section will be self-supporting, but whether the entire system is feasible as a whole. Only through area coverage can electric service be extended to many of the more isolated farms.

Farmers are coming to depend more and more upon electricity as a production tool.

REA, through its electric farming program is encouraging its borrowers to give their consumers guidance in economical and efficient use of electricity for production of food and fiber. This is essential since the United States faces not only serious shortages of power in some areas, but an acute shortage of farm labor generally. To date, about 400 farm uses for electricity are known, at least 250 of them productive uses.

Farmers already use more electric energy for more farm tasks than was expected when the original lines were built. As a result, power system operators are under constant pressure to "heavy up" the lines and substations to keep ahead of load growth. A progressive program of system improvements has been a major activity of most REA electrification borrowers in recent years.

An important result of the expanding rural electrification program is the increased business it brings into rural communities. It stimulates private business, both locally and nationally. Surveys indicate that for every dollar invested in rural power facilities, the farmer invests an additional \$4.50 in wiring, plumbing and electrical appliances. When low-cost power is available, the establishment of new local enterprises is encouraged.

The use of rural electric power now makes it easier for farmers to join city folks in making their rightful contribution to the national economy.

In the State of _____, at the time REA was established, only _____ farms, or _____ percent, were receiving central station electric service. REA estimated that _____ farms in the State, or _____ percent of all farms recorded in the 1950 Census, were served by June 30, 1952.

The first REA loan in _____ was approved in _____, and the first REA-financed line placed in operation on _____ by the _____ of _____.

Up to _____, REA had approved \$ _____ in loans in the State to _____ borrowers, _____ of them cooperatives. The loans will enable these borrowers to finance the construction of _____ miles of line and other rural electric facilities to serve _____ rural consumers. Some of these facilities already are in operation, and additional lines are being built as rapidly as possible.

By _____, REA had advanced \$ _____ as loans in _____, and the State's borrowers were operating _____ miles of line serving _____ farms and other rural consumers.

The average monthly farm consumption on REA-financed lines in _____ increased from _____ kilowatt-hours in December 1941, to _____ kilowatt-hours in December 1951. This increase reflects greater use of electrical equipment to save time and labor in performing farm and household tasks to meet production goals and help bring about a more comfortable way of rural living. In the same period the national average went from 61 kwh to 183 kwh per farm.

The latest REA debt-service summary, covering all transactions to _____, shows that the _____ borrowers have paid \$ _____ in principal and interest on their Government loans. This includes \$ _____ paid on principal in advance of the date due. _____ borrowers were ahead on their payments and _____ were behind. Only \$ _____ was more than 30 days overdue on loans in the State.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

(State)

The REA Rural Telephone Loan Program

The rural telephone loan program administered by REA was authorized by Congress in 1949 to meet the need of rural people for adequate telephone service.

During the last 30 years, farm telephone service has lagged far behind progress in other fields. According to U. S. Census figures, fewer farms had telephones in 1950 than in 1920. Farm telephone service had also declined in quality. Because there was little evidence of early major improvement in this situation, Congress approved Federal financing of the improvement and extension of rural telephone service.

The Rural Electrification Administration is an agency in the U. S. Department of Agriculture, established on May 11, 1935. It is headed by an Administrator who is appointed by the President for a ten year term, subject to Senate confirmation. The present Administrator, Claude R. Wickard of Indiana, took office July 1, 1945.

Under the telephone amendment, REA is empowered to make loans to business firms for the improvement and expansion of rural telephone service. As in the electrification program, the loans bear two percent interest and must be repaid over a maximum period of 35 years.

REA itself operates no rural electric or telephone facilities, and the program involves no grants or subsidies. REA serves principally as a banker. Its main functions are to lend money and to give technical advice

and counsel where needed in the construction and operation of the borrowers' facilities. REA borrowers repay loans from their operating revenues.

The rural telephone loan program has two basic features. First, it is a lending program. The Rural Electrification Act requires that all loans be self-liquidating, and that the loans be repaid within the time agreed. REA proposes to maintain the fine repayment record achieved by its rural electrification borrowers. Ability of an applicant to meet REA loan security requirements is an important condition of loan eligibility. REA telephone loans can cover between 50 and a little more than 90 percent of the total value of the telephone system, including the facilities financed by REA; the borrower must provide the remaining equity.

The second major feature of the telephone program is its objective of area coverage. In defining this basic principle of the telephone legislation, Congress directed that the program be conducted to "assure the availability of adequate telephone service to the widest practicable number of rural users of such service."

REA urges rural people who do not have dependable telephone service but want it to apply to the nearest telephone company. If an established company is willing to provide modern area-wide service at fair rates, REA feels that the best interest of the community will be served by helping the company provide it. As a matter of administrative policy, REA will not consider an application from a new group except upon evidence that the established company cannot or does not choose to provide the service.

If there is no nearby telephone company or the local company is not able or willing to provide service on an area-wide basis under reasonable conditions, the formation of a new telephone organization in the area will probably be necessary. Such a new enterprise may be either a cooperative or a profit corporation, but a new non-profit firm would have preference under the rural telephone law.

Rural telephone service in this country was at its peak in 1920. At that time, nearly 2.5 million farms, or 38.7 percent of all farms in the United States, had telephones. During the late 20's and early 30's, however, farm service in most states declined.

Beginning in 1936, farm telephone service was again expanded, gradually at first, and then more rapidly as farm incomes increased after 1940. By 1950, the Census indicated that 38.3 percent of farms in the United States had telephones, although much of their service was mediocre or poor. The ratio of farms with telephones in 1950 ranged from 6.5 percent in Mississippi to 81.9 percent in Iowa. Although rural telephone expansion since the war was highly publicized, less than 200,000 farms were added to telephone lines between the 1945 and 1950 Census dates. Other surveys indicate, moreover, that although some expansion had been made since the end of the war in 1950, about half of the farms with telephones still had unsatisfactory service.

The demand of rural people for telephones in 1950 corresponds to their demand of 15 years earlier for electric service. Operators of small existing telephone systems realize the need for a low-cost credit program.

Expansion or improvement of their systems is limited because this type of financial assistance is not available from private sources. The establishment of the rural telephone loan program gave farmers and other rural people fresh hope for full rural telephone coverage and satisfactory service.

The development in rural electrification indicates the effectiveness of such a program. When the Federal REA program started in 1935, only 10.9 percent of all U. S. farms were electrified. REA estimated that 88.1 percent were electrified by June 30, 1952.

Since the telephone loan program was authorized, rural people have been eager to obtain its benefits. In less than two months after REA began to receive loan applications, funds for the first REA telephone loan were allocated to the Florala Telephone Company of Florala, Alabama, on February 24, 1950. The Fredericksburg and Wilderness Telephone Company of Chancellor, Virginia, placed the first REA-financed facilities in service in September 1950, and made the first payment due the government under the rural telephone loan program two years later.

At the end of 1952, after the first three years of the telephone loan program, 122 commercial companies and 109 cooperatives had loans approved, totaling over \$106 million. More than \$17 million had actually been advanced to about 100 borrowers. When the borrowers' facilities are completed, nearly three million rural families will be getting modern telephone service. A total of 965 applications for loans had been received up to that time, and they continue to come in at a steady rate.

At the beginning of 1953, twenty firms had new REA-financed telephone facilities in actual service, and REA borrowers reported completion of about 1,356 miles of pole line. An average of about one additional cut-over a week is scheduled during the first half of 1953. The actual or impending availability of modern telephone service has uniformly resulted in a much greater demand for service than had been anticipated. Many borrowers have already applied for second and even third loans to expand their new facilities, even though they had expected them to be adequate for many years.

The number of _____ farms with telephones in Census
State
years is shown below:

<u>Year</u>	<u>Farms with Telephones</u>	
	<u>Number</u>	<u>Percent of Total</u>
1920	_____	_____
1930	_____	_____
1940	_____	_____
1945	_____	_____
1950	_____	_____

In contrast, the number of electrified farms increased from _____
percent of the total in 1935 to _____ percent on June 30, 1952.

As of _____, a total of \$ _____ had been
allocated for loans to _____ commercial companies and _____ coopera-
tives in _____ States. These loans will enable the borrowers to construct
or rebuild _____ miles of pole line to serve _____ new subscribers
and to provide improved service to _____ present subscribers.

_____ is represented in these totals by approvals to _____
State
firms for loans amounting to \$ _____, to bring modern telephone
service to _____ rural establishments, and improved service to _____
present subscribers.

In addition, REA had on hand _____ formally executed loan applica-
tions, totaling \$ _____, of which \$ _____ represents requests
from organizations in _____
State